

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name	County
Audit Date	Opinion Date	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)			
Street Address		City	State
			ZIP Code
Accountant Signature		Date	
<i>Abraham & Alfrey, P.C.</i>		<i>John R. K.</i>	

**Mid-Michigan District Health Department
Stanton, Michigan**

FINANCIAL STATEMENTS

September 30, 2004

Mid-Michigan District Health Department

TABLE OF CONTENTS

September 30, 2004

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-vii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Fund Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	6
Notes to Financial Statements	7-14
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Special Revenue Fund	15
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	16-17
Notes to Schedule of Expenditures of Federal Awards	18
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	19-20
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	21-22
SCHEDULE OF FINDINGS	23
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	24

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ABRAHAM & GAFFNEY, P.C.
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INDEPENDENT AUDITOR'S REPORT

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Mid-Michigan District Health Department, a component unit of Montcalm County, Michigan as of and for the year ended September 30, 2004, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

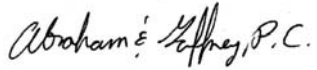
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Mid-Michigan District Health Department as of September 30, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2005, on our consideration of the Mid-Michigan District Health Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying other supplementary information and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 21, 2005



Mid-Michigan District Health Department

Your Public Health Experts; Connecting with the Community and Exceeding Expectations

615 N. State St., Suite 2, Stanton, MI 48888 - 989.831.5237 - fax 989.831.5522 - www.mmdhd.org

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2004

The Mid-Michigan District Health Department is in its second year of implementing the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Department's financial performance during the fiscal year ended September 30, 2004, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Department's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statements.

Financial Highlights

- The assets of the Department exceeded its liabilities at September 30, 2004, by \$1,143,973 at the government-wide level. Of this amount, \$884,380 (unrestricted net assets) may be used to meet the Department's ongoing obligations.
- The Department's total net assets increased \$103,566 as a result of this year's operations.
- As of September 30, 2004, the Department's governmental fund reported an ending fund balance of \$1,082,332, an increase of \$167,683.
- As of September 30, 2004, the unreserved and undesignated fund balance was \$113,601.

Overview of the Financial Statements

The Mid-Michigan District Health Department's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements: The government-wide financial statements provide information about the activities of the entire Department. They present an overall view of the Department's finances, reporting the assets and liabilities on fiscal year ending September 30, 2004.

The statement of net assets present information on all of the Mid-Michigan District Health Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2003/04. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

All of the Mid-Michigan District Health Department's offices are supported by intergovernmental revenues, governmental grants, donations, fees and charges for services, interest, local, and contributions. The governmental activities of the Department are all considered health and sanitation programs. The Department does not operate any programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include only financial information related to the Mid-Michigan District Health Department.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Mid-Michigan District Health Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department operates with one fund, which is considered a governmental fund.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Mid-Michigan District Health Department adopts an annual appropriated budget for its Health Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 1-6 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7-14 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 15. Other supplementary information concerning expenditures of federal awards can be found on pages 16-24 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Mid-Michigan District Health Department, assets exceeded liabilities by \$1,143,973. A comparative analysis of data with the previous fiscal year is as follows:

	<u>2003</u>	<u>2004</u>
Current assets	\$ 1,663,249	\$ 1,764,551
Noncurrent assets	<u>265,627</u>	<u>259,593</u>
Total assets	1,928,876	2,024,144
Current liabilities	628,841	619,926
Noncurrent liabilities	<u>259,628</u>	<u>260,245</u>
Total liabilities	<u>888,469</u>	<u>880,171</u>
Net assets		
Invested in capital assets	244,076	259,593
Unrestricted	<u>796,331</u>	<u>884,380</u>
Total net assets	<u>\$ 1,040,407</u>	<u>\$ 1,143,973</u>

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) increased by \$88,049. This represents an increase of approximately 11 percent. Net assets invested in capital assets, net of related debt, increased by \$15,517. This represents an increase of approximately 6 percent. The current level of unrestricted net assets for our governmental activities stands at \$884,380, or approximately 16 percent of annual expenses. This is within our desired range.

The following table shows the changes of net assets for the years ended September 30, 2003 and 2004.

	<u>2003</u>	<u>2004</u>
Program revenues		
Charges for services	\$ 1,403,169	\$ 1,363,949
Operating grants and other/contributions	2,864,144	3,135,780
General revenue		
County appropriations	1,122,176	1,129,824
Cigarette tax	51,643	71,447
Interest	<u>3,524</u>	<u>4,487</u>
Total revenues	5,444,656	5,705,487
Program Expenses	5,508,467	5,601,921
Special Items	<u>38,103</u>	<u>-</u>
Total expenses	<u>5,546,570</u>	<u>5,601,921</u>
Change in net assets	<u>\$(101,914)</u>	<u>\$ 103,566</u>

For the year ended September 30, 2004, operating grants and contributions increased \$271,636 mainly due to increased funding for Emergency Preparedness and increased value of vaccine supply contributed by the State of Michigan as revenue.

Total expenses increased approximately 1% over last year, primarily related to normal economic cost increase factors.

Financial Analysis of the Government's Fund

As noted earlier, the Mid-Michigan District Health Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund: The focus of the Mid-Michigan District Health Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Mid-Michigan District Health Department's financing requirements. In particular, unreserved-undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Mid-Michigan District Health Department's governmental fund reported an ending fund balance of \$1,082,332; an increase of \$167,683 in comparison with the prior year. Of this total, \$61,532 has been reserved for prepaid expenditures and grant programs. There has been \$323,867 designated for vacation and personal leave; \$106,394 designated for equipment and technology; \$268,830 designated for retirement; and \$208,108 designated for other purposes. The unreserved and undesignated fund balance at September 30, 2004 was \$113,601.

As a measure of the governmental fund's liquidity, it may be useful to compare unreserved fund balance, total fund balance, and unreserved-undesignated fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 18 percent and 19 percent, respectively, of total fund expenditures, while unreserved-undesignated fund balance represents approximately 2 percent of total expenditures.

Governmental Fund Budgetary Highlights

Over the course of the year, the Mid-Michigan District Health Department's Board of Health may amend the budget to take into account events that occur during the year. For the year ended September 30, 2004, the only budget amendment primarily increased intergovernmental revenue and expenses for the added Emergency Preparedness responsibilities and for the additional anticipated value of the vaccine supply contributed by the State of Michigan.

Capital Asset and Debt Administration

Capital Assets: The Mid-Michigan District Health Department's investment in capital assets as of September 30, 2004, amounts to \$259,593 (net of accumulated depreciation).

Long-term Obligations: The Mid-Michigan District Health Department executed a loan agreement to finance the purchase of a telephone system in 2002. As of September 30, 2004, the balance of the loan had been fully paid off. The Department also has a long-term obligation related to compensated absences (e.g., unused vacation and personal leave). The total liability for this long-term obligation at September 30, 2004, was \$325,306.

Economic Factors and Next Year's Budget and Rates

For the fiscal year ending September 30, 2005, close monitoring of State budget actions will continue to be important related to further possible cuts in funding provided through the Comprehensive Planning, Budgeting and Contracting (CPBC) agreement with the Michigan Department of Community Health. This level of funding has a significant impact on the types and levels of service we are able to provide as a Local Public Health Department.

Because the services of the Mid-Michigan District Health Department are provided based on need and not the ability to pay and the financial condition of the Mid-Michigan District Health Department is generally sound, the budget for the fiscal year ending September 30, 2005, included only normal economic increases in fees charged for services to the general public related to the corresponding increased operating costs to provide them.

Requests for Information

This financial report is designed to provide a general overview of the Mid-Michigan District Health Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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BASIC FINANCIAL STATEMENTS

Mid-Michigan District Health Department

STATEMENT OF NET ASSETS

September 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 1,072,740
Accounts receivable	158,578
Due from other governmental units	
Federal/State	86,697
Local	313,934
Prepays	53,164
Inventories	<u>79,438</u>
Total current assets	1,764,551
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>259,593</u>
TOTAL ASSETS	2,024,144
LIABILITIES	
Current liabilities	
Accounts payable	162,203
Accrued wages	219,501
Other accrued liabilities	93,723
Deferred revenue	79,438
Current portion of compensated absences	<u>65,061</u>
Total current liabilities	619,926
Noncurrent liabilities	
Noncurrent portion of compensated absences	<u>260,245</u>
TOTAL LIABILITIES	<u>880,171</u>
NET ASSETS	
Invested in capital assets	259,593
Unrestricted	<u>884,380</u>
TOTAL NET ASSETS	<u><u>\$ 1,143,973</u></u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department

STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenues and
		Services	Grants and	Changes in
			Contributions	Net Assets
				Governmental
				Activities
Governmental activities				
Personal health	\$ 3,071,193	\$ 437,454	2,007,427	\$ (626,312)
Environmental health	1,612,508	640,346	589,154	(383,008)
Dental health	514,095	237,155	187,397	(89,543)
Administration	43,234	36,454	100	(6,680)
Other	360,891	12,540	351,702	3,351
Total governmental activities	<u>\$ 5,601,921</u>	<u>\$ 1,363,949</u>	<u>\$ 3,135,780</u>	(1,102,192)
General revenues				
Interest				4,487
County appropriations				
Regular				946,273
Other				183,551
Cigarette tax				<u>71,447</u>
Total general revenues				<u>1,205,758</u>
Change in net assets				103,566
Net assets, beginning of the year				<u>1,040,407</u>
Net assets, end of the year				<u>\$ 1,143,973</u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department
GOVERNMENTAL FUND BALANCE SHEET

September 30, 2004

	Special Revenue
ASSETS	
Cash	\$ 1,072,740
Accounts receivable	158,578
Due from other governmental units	
Federal/State	86,697
Local	313,934
Prepays	53,164
Inventories	79,438
	<hr/>
TOTAL ASSETS	\$ 1,764,551
	<hr/>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 162,203
Accrued wages	219,501
Other accrued liabilities	93,723
Deferred revenue	206,792
	<hr/>
TOTAL LIABILITIES	682,219
FUND BALANCE	
Reserved for	
Prepays	53,164
Grant programs	8,368
Designated for	
Vacation and sick leave	323,867
Strategic planning	9,000
Equipment and technology	106,394
Self-insurance bonds	12,669
Retirement	268,830
Unemployment	10,000
Training	10,000
Managed care	40,000
Facility development	125,000
Donated leave	1,439
Unreserved - undesignated	113,601
	<hr/>
TOTAL FUND BALANCE	1,082,332
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,764,551
	<hr/>

See accompanying notes to financial statements.

Mid-Michigan District Health Department

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

September 30, 2004

Total fund balance - governmental fund \$ 1,082,332

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 587,343	
Accumulated depreciation is	<u>(327,750)</u>	
		259,593

Certain accounts receivable are not susceptible to accrual in the Fund
Financial Statements due to not having met the criteria to be considered
available to finance current operations.

Deferred revenue	127,354
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Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Compensated absences	<u>(325,306)</u>
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Net assets of governmental activities	<u><u>\$ 1,143,973</u></u>
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See accompanying notes to financial statements.

Mid-Michigan District Health Department

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND

Year Ended September 30, 2004

	Special Revenue
REVENUES	
Licenses and permits	\$ 648,886
Intergovernmental	
Federal/State	2,700,867
Local	242,288
Charges for services	945,710
Interest and rents	4,487
Contributions	39,147
Other	366
	<hr/>
TOTAL REVENUES	4,581,751
EXPENDITURES	
Current	
Salaries and wages	3,087,674
Fringe benefits	885,113
Supplies and materials	742,802
Contractual	176,370
Communications	75,789
Travel and training	168,234
Insurance	52,524
Repairs and maintenance	12,069
Building and equipment lease and rentals	232,535
Printing and advertising	23,304
Postage	33,668
Other	47,351
Debt service	24,017
Capital outlay	53,889
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TOTAL EXPENDITURES	5,615,339
	<hr/>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,033,588)
OTHER FINANCING SOURCES	
County appropriations - regular	946,273
County appropriations - other	183,551
Cigarette tax	71,447
	<hr/>
TOTAL OTHER FINANCING SOURCES	1,201,271
	<hr/>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	167,683
Fund balance, beginning of year	914,649
	<hr/>
Fund balance, end of year	\$ 1,082,332
	<hr/>

See accompanying notes to financial statements.

Mid-Michigan District Health Department

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Net change in fund balance - governmental fund \$ 167,683

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	53,889	
Depreciation expense	<u>(59,923)</u>	
Excess of depreciation expense over capital outlay		(6,034)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

(Decrease) in deferred revenue		(78,863)
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Repayment of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, this amount consists of:

Capital lease retirement		21,551
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued compensated absences	<u>(771)</u>	
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Change in net assets of governmental activities	\$	<u>103,566</u>
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See accompanying notes to financial statements.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mid-Michigan District Health Department is a joint venture between Montcalm, Gratiot, and Clinton Counties, and was established to provide public health services. The District Health Board has representation and provides services to Montcalm, Gratiot, and Clinton Counties. Each County provides annual appropriations and passes through the statutory amounts of cigarette tax funding to subsidize operations. The current funding formula approved by the District Health Board requires Montcalm, Gratiot, and Clinton Counties to provide approximately 38, 23, and 39 percent, respectively. In addition, the treasury function for the District Health Department rests with the Montcalm County Treasurer. For this reason, the District Health Department is considered a component unit of Montcalm County for financial reporting purposes.

The District Health Department's financial statements are prepared in accordance with generally accepted principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Department are discussed below.

The primary revenues of the Mid-Michigan District Health Department are charges for services, Federal and State grants and County appropriations.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Mid-Michigan District Health Department. The Department is considered a "joint venture" of Montcalm, Gratiot, and Clinton Counties.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Department as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Department and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and all County appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Department.

FUND FINANCIAL STATEMENTS

The Department uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Department's individual major fund.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

2. Basis of Presentation - continued

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the Department is:

- a. Special Revenue Fund - This fund is used to account for all financial resources of the Department, which are restricted to expenditures for specified health related purposes.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Department before it has legal claim to them, such as when grant monies are received and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Department reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

The annual budget of the Department is prepared by Department management and approved by the Board at the total expenditure level. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

5. Cash

Cash consists of the Department's payroll and accounts payable checking account, imprest cash, and cash on deposit with the Montcalm County Treasurer.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

6. Receivables and Deferred Revenue

Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations.

The Department has recognized the revenue related to charges for services at the time the services are performed and billed to the extent such amounts are estimated to be received. Contractual adjustments by third-party payors are treated as a reduction to revenues.

The Department has recorded deferred revenue at both the government-wide and the fund level equaling the amount of vaccine inventory received from the State of Michigan that is on hand at year-end.

7. Inventories

Inventories are stated at cost on a first in/first out basis. Inventory consists of vaccines received from the State of Michigan.

8. Capital Assets

Capital assets include equipment and land improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more, with estimated useful lives of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment	5-20 years
-----------	------------

The Department has no assets that would be classified as infrastructure assets.

9. Long-Term Obligations

Long-term debt is recognized as a liability in the government-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

10. Compensated Absences

The Department employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount, along with related payroll taxes has been recorded as a current and noncurrent liability in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since its inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Department is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

The Department's bank deposits at September 30, 2004, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ 776	\$ 6,624

Bank deposits of the Department are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Department. As of September 30, 2004, the Department's accounts were fully insured by the FDIC.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE B: CASH - CONTINUED

The cash caption on the balance sheet includes \$10,354 in imprest cash and \$1,061,610 in cash that is on deposit with the Montcalm County Treasurer. The cash on deposit with the Montcalm County Treasurer is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these amounts cannot be determined.

NOTE C: CAPITAL ASSETS

The following provides a summary of the changes in capital assets for the year ended September 30, 2004:

	Balance Oct. 1, 2003	Additions	Deletions	Balance Sept. 30, 2004
Governmental activities:				
Equipment	\$ 534,954	\$ 53,889	\$(1,500)	\$ 587,343
Less accumulated depreciation for:				
Equipment	(269,327)	(59,923)	1,500	(327,750)
Capital assets, net	<u>\$ 265,627</u>	<u>\$(6,034)</u>	<u>\$ -0-</u>	<u>\$ 259,593</u>

Depreciation expense has been allocated to governmental functions as follows: Personal Health \$3,422, Environmental Health \$6,668, Dental Health \$7,418, Administration \$34,106 and Other \$8,309.

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Health Department for the year ended September 30, 2004:

	Balance Oct. 1, 2003	Additions	Deletions	Balance Sept. 30, 2004	Amounts due within one year
Installment loan	\$ 21,551	\$ -	\$ 21,551	\$ -0-	\$ -
Accumulated compensated absences	<u>324,535</u>	<u>771</u>	<u>-</u>	<u>325,306</u>	<u>65,061</u>
	<u>\$ 346,086</u>	<u>\$ 771</u>	<u>\$ 21,551</u>	<u>\$ 325,306</u>	<u>\$ 65,061</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Accumulated Compensated Absences

Employees of the Mid-Michigan District Health Department are granted vacation leave in varying amounts based on length of service. Upon termination of employment, employees are paid accumulated vacation at full current rate of pay to a maximum of 30 days, and accumulated sick leave at a rate of 50% of hours accumulated up to a maximum of 480 hours (240 hours payable).

Accumulated vacation leave and personal pay represent a liability to the Department which is presented in a current and long term portion of the liability. Payments to employees for vacation leave and personal pay are recorded as expenditures when they are used and payments are actually made to the employees.

At September 30, 2004, the Department's total liability for vacation and sick pay amounted to \$325,306, \$65,061 of which has been classified as a current liability.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE E: RETIREMENT PLAN

Plan Description

The Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Department. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Board of Public Health. The plan requires a contribution from the employees ranging from 0-2.75 percent of wages depending on the employee group covered. The Department is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended September 30, 2004, the Department's annual pension cost of \$258,402 for the plan was equal to the Department's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will increase 2.5% per year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over 30 years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 3,964,850	\$ 4,082,996	\$ 4,418,331
Actuarial accrued liability (AAL) (entry age)	4,282,143	4,653,671	5,060,456
Unfunded AAL	317,293	570,705	642,125
Funded ratio	93 %	88 %	87 %
Covered payroll	2,453,116	2,693,292	2,723,172
UAAL as a percentage of covered payroll	13 %	21 %	24 %

	Year Ended September 30,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 156,277	\$ 177,345	\$ 258,402
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE F: DEFERRED COMPENSATION

The Mid-Michigan District Health Department offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to substantially all Department employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans are administered through MetLife Resources, Royal Alliance, and Primary Shareholders Services, respectively.

Legislative change has been made to 457 plans which mandate that no later than January 1, 1999 all existing 457 plan assets must be held in a custodial account, trust, annuity contract for benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of public employees creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. As of September 30, 1999, the Department had implemented changes to be in compliance with the new requirement. As a result, the plan assets are not reported in the audited financial statements by the Department because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

The Mid-Michigan District Health Department also offers its employees a tax sheltered annuity plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to substantially all Department employees, permits them to make pre-tax contributions into various investment options. The Department has obtained non-profit exemption status under Internal Revenue Code Section 501(c)(3) thus allowing them to create the 403(b) plan. The plan is administered through MetLife Resources.

NOTE G: RISK MANAGEMENT

The Department carries commercial insurance for the risk of loss due to workers' compensation claims.

The Department also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Department has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE H: NONCANCELABLE OPERATING LEASE OBLIGATIONS

The Mid-Michigan District Health Department has entered into a twenty-year, noncancelable long-term lease with NHF Sub Montcalm, a nonprofit organization, for the Montcalm branch office space. Rent expense for the year ended September 30, 2004 amounted to \$91,068.

Future minimum payments are as follows:

<u>Montcalm</u>	
2005	\$ 91,068
2006	91,068
2007	91,068
2008	91,068
2009	91,068
2010 and thereafter	<u>736,133</u>
TOTAL PAYMENTS	<u>\$ 1,191,473</u>

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Department has set aside for specific purposes.

The following are the fund balance reserves as of September 30, 2004:

Reserved for grant programs	\$ 8,368
Reserved for prepaids	<u>53,164</u>
	<u>\$ 61,532</u>

The following are the fund balance designations as of September 30, 2004:

Designated for equipment and technology	
Software upgrade	\$ 19,000
Future technology	42,394
Equipment 2004/2005	40,000
Laptops	2,000
Administration office setup	<u>3,000</u>
	106,394
Designated for self-insurance bonds	12,669
Designated for vacation and sick leave	323,867
Designated for retirement	268,830
Designated for unemployment	10,000
Designated for training	10,000
Designated for managed care	40,000
Designated for facility development	125,000
Designated for strategic planning	9,000
Designated for donated leave	<u>1,439</u>
	<u>\$ 907,199</u>

REQUIRED SUPPLEMENTARY INFORMATION

Mid-Michigan District Health Department

BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND

Year Ended September 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses and permits	\$ 451,335	\$ 451,335	\$ 648,886	\$ 197,551
Intergovernmental				
Federal/State	1,498,297	1,721,948	2,700,867	978,919
Local	726,201	726,201	242,288	(483,913)
Charges for services	1,486,707	1,586,707	945,710	(640,997)
Interest and rents	10,000	4,000	4,487	487
Contributions	25,700	25,700	39,147	13,447
Other	-	400	366	(34)
TOTAL REVENUES	4,198,240	4,516,291	4,581,751	65,460
EXPENDITURES				
Current				
Salaries and wages	2,954,794	3,146,000	3,087,674	58,326
Fringe benefits	864,066	879,171	885,113	(5,942)
Supplies and materials	748,114	836,114	742,802	93,312
Contractual	178,700	178,700	176,370	2,330
Communications	79,250	79,250	75,789	3,461
Travel and training	174,450	182,000	168,234	13,766
Insurance	53,300	53,300	52,524	776
Repairs and maintenance	15,900	15,900	12,069	3,831
Building and equipment lease and rentals	256,321	264,421	232,535	31,886
Printing and advertising	31,880	31,880	23,304	8,576
Postage	27,350	27,350	33,668	(6,318)
Other	60,190	60,190	47,351	12,839
Debt service	22,000	22,000	24,017	(2,017)
Capital outlay	-	3,490	53,889	(50,399)
TOTAL EXPENDITURES	5,466,315	5,779,766	5,615,339	164,427
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,268,075)	(1,263,475)	(1,033,588)	229,887
OTHER FINANCING SOURCES				
County appropriations - regular	954,274	954,274	946,273	(8,001)
County appropriations - other	209,801	205,201	183,551	(21,650)
Cigarette tax	79,000	79,000	71,447	(7,553)
Transfer in - phone system	25,000	25,000	-	(25,000)
TOTAL OTHER FINANCING SOURCES	1,268,075	1,263,475	1,201,271	(62,204)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-0-	-0-	167,683	167,683
Fund balance, beginning of year	914,649	914,649	914,649	-0-
Fund balance, end of year	\$ 914,649	\$ 914,649	\$ 1,082,332	\$ 167,683

OTHER SUPPLEMENTARY INFORMATION

Mid-Michigan District Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed through Michigan Department of Community Health Women, Infants and Children (WIC) ^(c)	10.557			
FY 03-04 Regular		N/A	\$ 384,985	\$ 384,985
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Passed through Michigan Department of Environmental Quality State Indoor Radon Grant	66.032			
FY 03-04 ^(a)		N/A	1,400	1,400
State Grants to Reimburse Operations of Small Water Systems for Training and Certification Cost	66.471			
FY 03-04		N/A	12,600	12,600
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Michigan Department of Community Health Family Planning Services (Family Planning) ^(a)	93.217			
FY 03-04		N/A	109,113	109,113
Immunization Grants	93.268			
FY 03-04 IAP		N/A	68,224	68,224
FY 03-04 Provider Site Visits ^(b)		N/A	8,400	8,400
FY 03-04 Vaccine Supply		N/A	<u>478,040</u>	<u>478,040</u>
			554,664	554,664
Centers for Disease Control and Prevention - Investigations and Technical Assistance ^(c)	93.283			
FY 03-04				
Focus A		N/A	123,037	123,037
Focus B		N/A	50,456	50,456
Focus E		N/A	60,564	60,564
Focus F		N/A	40,839	40,839
Focus G		N/A	69,806	69,806
Focus G ^(b)		N/A	<u>2,000</u>	<u>2,000</u>
			346,702	346,702

Mid-Michigan District Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED				
Passed through Michigan Department of Community Health - continued				
Maternal and Child Health Services Block Grant to the States	93.994			
FY 03-04 Family Planning Services ^(a)		N/A	\$ 23,781	\$ 23,781
FY 03-04 Local MCH		N/A	88,254	88,254
FY 03-04 Case Management Services		N/A	15,671	15,671
FY 03-04 Oral Health		N/A	<u>22,183</u>	<u>22,183</u>
			149,889	149,889
Passed through Michigan Family Independence Agency and Michigan Department of Community Health				
Medical Assistance Program (Title XIX Medicaid)	93.778			
FY 03-04 Medicaid Administration ^(a)		N/A	19,326	19,326
FY 03-04 Immunization Registry		N/A	6,929	6,929
Case Management Services (CC-LBS)				
FY 03-04 Care Coordination ^(b)		N/A	660	660
FY 03-04 Care Coordination - Level I ^(b)		N/A	<u>1,985</u>	<u>1,985</u>
			28,900	28,900
Promoting Safe and Stable Families	93.556			
FY 03-04 Clinton		SFSC 02-19006	<u>9,772</u>	<u>9,772</u>
TOTAL FEDERAL AWARD EXPENDITURES			<u>\$ 1,598,025</u>	<u>\$ 1,598,025</u> (d)

Mid-Michigan District Health Department

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2004

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Mid-Michigan District Health Department and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the following approximate percentages of Federal participation:

<u>Program</u>	<u>CFDA Number</u>	<u>Approximate Percent</u>
State Indoor Radon Grant	66.032	50.0 %
Family Planning	93.217	75.0
Family Planning	93.994	16.0
Medicaid Administration	93.778	50.0

- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes program tested as "major program".
- (d) The following reconciles the federal revenues reported in the September 30, 2004, fund financial statements to the expenditures of the Department administered federal programs reported on the Schedule of Expenditures of Federal Awards:

Federal/State Revenue (per financial statements)	\$ 2,700,867
<u>Less: Portions of grant funding considered "State" funding</u>	<u>(1,102,842)</u>
	<u>\$ 1,598,025</u>

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

We have audited the component unit financial statements of the Mid-Michigan District Health Department as of and for the year ended September 30, 2004, and have issued our report thereon dated January 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mid-Michigan District Health Department internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mid-Michigan District Health Department financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the board and management, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 21, 2005

Principals

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

Compliance

We have audited the compliance of the Mid-Michigan District Health Department with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major Federal programs for the year ended September 30, 2004. The Mid-Michigan District Health Department major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal programs are the responsibility of the Mid-Michigan District Health Department management. Our responsibility is to express an opinion on the Mid-Michigan District Health Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Mid-Michigan District Health Department's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mid-Michigan District Health Department's compliance with those requirements.

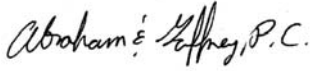
In our opinion, the Mid-Michigan District Health Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the Mid-Michigan District Health Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Mid-Michigan District Health Department's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board and management, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 21, 2005

Mid-Michigan District Health Department

SCHEDULE OF FINDINGS

Year Ended September 30, 2004

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements of the Mid-Michigan District Health Department.

There were no reportable conditions disclosed by the audit of the basic financial statements.

We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We disclosed one (1) finding regarding internal controls or compliance related to the major programs tested as detailed below with the reference number 03-1.

The major programs tested to cover 25 percent of the total Federal expenditures were the Women, Infants, and Children (WIC) (CFDA 10.557) and Investigations and Technical Assistance (CFDA 93.283) programs. Total Federal expenditures for the year ended September 30, 2004, for the major programs were \$731,687, which is approximately 46 percent of the total Federal Award expenditures. Based on the criteria of OMB Circular A-133, the Mid-Michigan District Health Department qualified as a low-risk auditee for the year ended September 30, 2004.

The dollar threshold for Type A programs of the Mid-Michigan District Health Department was \$300,000. Three (3) programs qualified as Type A: WIC (CFDA 10.557), Investigations and Technical Assistance (CFDA 93.283), and Immunizations (CFDA 93.268). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Condition Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

None

Findings Related to Compliance with Requirements to the Major Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Mid-Michigan District Health Department

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended September 30, 2004

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior reportable conditions

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

03-1 Vaccine Inventory

Immunization grants - FY 01-02 and FY 02-03 - Passed through U.S. Department of Health and Human Services and the Michigan Department of Community Health.

As noted in the September 30, 2002 and 2003 Single Audits, the Department had findings related to vaccine inventory as detailed in the Noncompliance with Requirements Applicable to Federal Awards in Findings 02-1 and 03-1. Based on our audit follow up on all prior audit findings, even though these programs were not tested as major programs, we noted similar findings in the current audit as we had noted in our previous audit report. The beginning and ending balances reported by the Department on the Local Health Department Vaccine Inventory report did not agree with the beginning and ending balances reported on the perpetual inventory records. The Department continues to review procedures and internal controls related to inventorying vaccine supply. As a result, this finding is not yet resolved.